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January 28, 2003

Via Electronic Submission

Chairman Michael Powell
Federal Communications Commission
445 12th Street, SW, 8th Floor
Washington, D.C. 20554

Re: Ex Parte Presentation
UNE Triennial Review Proceeding – CC Docket No. 01-338
Local Competition Proceeding – CC Docket No. 96-98
Deployment of Advanced Wireline Services – CC Docket No. 98-147

Dear Chairman Powell:

On January 14, 2003, SBC filed its economic analysis demonstrating that CLECs can profitably serve customers using their own switches in conjunction with UNE loop ("UNE-L") serving arrangements. As part of its analysis, SBC developed a cost model to calculate the recurring and non-recurring cost of obtaining and using unbundled loops, cross-connects, virtual collocation, GR-303 DLC concentration equipment, transport, and switching. SBC also included in its calculation the cost of providing long distance service and the SG&A costs of serving residential customers. On a wire center basis, SBC's economic analysis compares the total per line costs of UNE-L-based serving arrangements with the revenue streams a CLEC could reasonably anticipate when serving residential customers. That analysis demonstrates that facilities-based CLECs can profitably serve residential customers in wire centers with at least 5,000 lines.

SBC has further enhanced its model to consider CLEC costs and profitability on an MSA basis. This analysis demonstrates that even if some smaller wire centers may not be profitable for CLECs to serve using unbundled loops and their own switches, in the aggregate, CLECs can profitably serve the collection of wire centers within an MSA.

Specifically, SBC used its model to calculate the cost a CLEC would incur using its own switch in conjunction with UNE-L serving arrangements to serve three MSAs in SBC's territory: the Sacramento, California MSA; the El Paso, Texas MSA; and the Saginaw, Michigan MSA.[1] SBC

[1] Because the underlying cost model is the same, SBC's MSA cost calculations are conservative for all of the same reasons the calculations in SBC's initial cost model are conservative. *See Letter from James C.*

chose these three MSAs because they are located in the same three states SBC used in its initial economic analysis, and they represent the top 50, middle 50, and lower 50 MSAs in terms of size.[2]

For these three MSAs, and for CLEC market share percentages of 5% and 10%, SBC calculated:

- The cost of all the loops necessary to serve customers in each wire center in each MSA;
- The cost of all the virtual collocation arrangements required for all of the equipment necessary to serve customers in each wire center in each MSA;
- The cost of all the GR-303 DLC concentration equipment necessary to serve customers in each wire center in each MSA;
- The cost of switching necessary to serve customers in each wire center in each MSA; and
- The cost of all the transport necessary to serve customers in each wire center in each MSA.

To calculate UNE loop costs, SBC used the appropriate UNE loop rate associated with each wire center in each MSA studied. For switching, SBC assumed that the CLEC switch is located at the same vertical and horizontal coordinates as the SBC tandem in the same LATA. For transport, SBC used unbundled dedicated transport rates for wire centers with less than 10,000 access lines, and month-to-month special access rates for wire centers with more than 10,000 access lines. SBC calculated the total transport mileage required to serve each MSA by summing the air mile distances between the V&H locations of each SBC wire center and the assumed location of the CLEC switch (*i.e.*, the V&H location of the SBC tandem). To calculate special access costs, SBC used the special access rate associated with each transport route between wire centers with more than 10,000 access lines in each MSA studied, and to calculate UNE transport costs, SBC used the UNE transport rate associated with each transport route between wire centers with less than 10,000 access lines in each MSA studied. Finally, SBC multiplied the total number of lines in each of its wire centers by the assumed 5% and 10% market shares to determine the number of lines, and thus the amount (and cost) of collocation, GR-303 DLC concentration equipment, transport, and switching necessary to serve each wire center.

For its MSA economic analysis—consistent with its original economic analysis—SBC compares the cost of UNE-L serving arrangements to the revenue opportunity available to new entrants on a per-line basis. Also consistent with its original analysis, SBC uses only residential revenue for its MSA analysis.[3] The results of SBC's MSA analysis further support the conclusion that CLECs can use their own switches in conjunction with UNE-L serving arrangements to profitably serve residential customers throughout an MSA.

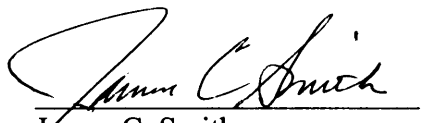
Smith, Senior Vice President, SBC Telecommunications, Inc. to Chairman Michael Powell, Federal Communications Commission, Att. 3 (Jan. 14, 2003).

[2] Sacramento is the 34th largest MSA, El Paso is the 74th largest MSA, and Saginaw is the 102nd largest MSA.

[3] Thus, as with its original economic analysis, SBC's revenue assumptions for its MSA economic analysis are overly conservative.

Specifically, the results in Table A demonstrate that for all market shares of 5% and above, in every MSA—including Saginaw, the 102nd largest MSA—facilities-based CLECs have positive residential margin opportunities. SBC's analysis thus conclusively demonstrates that CLECs can use their own switches in conjunction with UNE-L serving arrangements to profitably serve MSAs throughout SBC's serving territory. This analysis, in conjunction with the economic analysis submitted by SBC on January 14th demonstrating that CLECs can profitably serve any wire center with 5,000 lines or more —including such wire centers outside SBC's MSAs— confirms that CLECs are not impaired without access to unbundled switching.

Respectfully Submitted,



James C. Smith
Senior Vice President

Attachments

cc: Scott Bergmann
Jeffrey Carlisle
Daniel Gonzalez
William Maher
Thomas Navin
John Rogovin
Robert Tanner
Lisa Zaina
Matthew Brill
Barbara Cherry
Linda Kinney
Jeremy Miller
Brent Olson
William W. Sharkey
Julie Veach
Michelle Carey
Jordan Goldstein
Christopher Libertelli
Steven F. Morris
Tamara Preiss
Don Stockdale
Simon Wilkie

TABLE A

CLEC Margin Analysis

Sacramento, CA		CLEC Retail Price Points[1]		
		$40	**$50**	$60
		Margin[2]		
Market Share	5%	$13.09	**$21.09**	$29.09
	10%	$13.26	**$21.26**	$29.26

Saginaw, MI		CLEC Retail Price Points[1]		
		$40	**$50**	$60
		Margin[2]		
Market Share	5%	$2.09	**$10.09**	$18.09
	10%	$4.67	**$12.67**	$20.67

El Paso, TX		CLEC Retail Price Points[1]		
		$40	**$50**	$60
		Margin[2]		
Market Share	5%	$1.85	**$9.85**	$17.85
	10%	$3.68	**$11.68**	$19.68

[1] Price points for bundled package of local, intraLATA toll and long distance service.

[2] Margins account for both operational costs and SG&A (SG&A is estimated as 20% of revenue).

ATTACHMENT 1

CLEC Margin Analysis

MSA #34 - Sacramento, CA

All $ Amounts are Weighted Average Per Line Per Month

CLEC Market Penetration	Total CLEC Line Size in MSA	Transport Recurring + Non Recurring	UNE Recurring + Non Recurring	Total Collo	Amortize CLEC GR303	Total CLEC Switch Amortized Investment + Operating Expense		Total CLEC Facility Expense
5%	50,162	$ 3.70	$ 13.28	$ 0.37	$ 0.69	$ 2.26		$ 20.31
10%	100,310	$ 3.62	$ 13.28	$ 0.67	$ 0.65	$ 1.93		$ 20.14

All $ Amounts are MSA Totals Per Month

CLEC Market Penetration	Total CLEC Line Size in MSA	Transport Recurring + Non Recurring	UNE Recurring + Non Recurring	Total Collo	Amortize CLEC GR303	Total CLEC Switch Amortized Investment + Operating Expense		Total CLEC Facility Expense
5%	50,162	$ 185,755	$ 666,040	$ 18,717	$ 34,776	$ 113,400		$ 1,018,688
10%	100,310	$ 363,383	$ 1,331,842	$ 66,999	$ 64,943	$ 193,509		$ 2,020,677

Revenue		
Local & LD Offering	Other (Access, SLC, etc.)*	Total Revenue
$ 40.00	$ 8.00	$ 48.00
$ 60.00	$ 8.00	$ 68.00

Other Expenses		
LD Costs*	Est. SG&A @ 20%	LD Costs + SG&A@20%
$ 5.00	$ 9.60	$ 14.60
$ 5.00	$ 13.60	$ 18.60

CLEC Margin Analysis @ $40 Offering

CLEC Market Penetration	Total Revenue	Total CLEC Facility Expense	LD Costs + SG&A@20%	CLEC EBITDA Total Margin	CLEC EBITDA Margin per Line	CLEC EBITDA Margin %
5%	$ 2,407,776	$ 1,018,688	$ 732,365	$ 656,723	$ 13.09	27%
10%	$ 4,814,880	$ 2,020,677	$ 1,464,526	$ 1,329,677	$ 13.26	28%

CLEC Margin Analysis @ $60 Offering

	Total Revenue	Total CLEC Facility Expense	LD Costs + SG&A@20%	CLEC EBITDA Total Margin	CLEC EBITDA Margin per Line	CLEC EBITDA Margin %
5%	$ 3,411,016	$ 1,018,688	$ 933,013	$ 1,459,315	$ 29.09	43%
10%	$ 6,821,080	$ 2,020,677	$ 1,865,766	$ 2,934,637	$ 29.26	43%

CLEC Margin Analysis

MSA #102- Saginaw, MI

All $ Amounts are Weighted Average Per Line Per Month

CLEC Market Penetration	Total CLEC Line Size in MSA	Transport Recurring + Non Recurring	UNE Recurring + Non Recurring	Total Collo	Amortize CLEC GR303	Total CLEC Switch Amortized Investment + Operating Expense		Total CLEC Facility Expense
5%	11,156	$ 8.76	$ 15.83	$ 0.94	$ 0.84	$ 4.94		$ 31.31
10%	22,304	$ 8.52	$ 15.83	$ 0.50	$ 0.70	$ 3.19		$ 28.73

All $ Amounts are MSA Totals Per Month

CLEC Market Penetration	Total CLEC Line Size in MSA	Transport Recurring + Non Recurring	UNE Recurring + Non Recurring	Total Collo	Amortize CLEC GR303	Total CLEC Switch Amortized Investment + Operating Expense		Total CLEC Facility Expense
5%	11,156	$ 97,686	$ 176,555	$ 10,471	$ 9,405	$ 55,140		$ 349,258
10%	22,304	$ 189,986	$ 352,984	$ 11,075	$ 15,638	$ 71,059		$ 640,742

Revenue		
Local & LD Offering	Other (Access, SLC, etc.)*	Total Revenue
$ 40.00	$ 8.00	$ 48.00
$ 60.00	$ 8.00	$ 68.00

Other Expenses		
LD Costs*	Est. SG&A @ 20%	LD Costs + SG&A@20%
$ 5.00	$ 9.60	$ 14.60
$ 5.00	$ 13.60	$ 18.60

CLEC Margin Analysis @ $40 Offering

CLEC Market Penetration	Total Revenue	Total CLEC Facility Expense	LD Costs + SG&A@20%	CLEC EBITDA Total Margin	CLEC EBITDA Margin per Line	CLEC EBITDA Margin %
5%	$ 535,488	$ 349,258	$ 162,878	$ 23,353	$ 2.09	4%
10%	$ 1,070,592	$ 640,742	$ 325,638	$ 104,211	$ 4.67	10%

CLEC Margin Analysis @ $60 Offering

	Total Revenue	Total CLEC Facility Expense	LD Costs + SG&A@20%	CLEC EBITDA Total Margin	CLEC EBITDA Margin per Line	CLEC EBITDA Margin %
5%	$ 758,608	$ 349,258	$ 207,502	$ 201,849	$ 18.09	27%
10%	$ 1,516,672	$ 640,742	$ 414,854	$ 461,075	$ 20.67	30%

CLEC Margin Analysis

MSA # 74 El Paso, TX

All $ Amounts are Weighted Average Per Line Per Month

CLEC Market Penetration	Total CLEC Line Size in MSA	Transport Recurring + Non Recurring	UNE Recurring + Non Recurring	Total Collo	Amortize CLEC GR303	Total CLEC Switch Amortized Investment + Operating Expense		Total CLEC Facility Expense
5%	8,531	$ 4.32	$ 17.45	$ 0.95	$ 1.41	$ 7.42		$ 31.55
10%	17,055	$ 4.16	$ 17.45	$ 2.17	$ 0.70	$ 5.24		$ 29.72

All $ Amounts are MSA Totals Per Month

CLEC Market Penetration	Total CLEC Line Size in MSA	Transport Recurring + Non Recurring	UNE Recurring + Non Recurring	Total Collo	Amortize CLEC GR303	Total CLEC Switch Amortized Investment + Operating Expense		Total CLEC Facility Expense
5%	8,531	$ 36,892	$ 148,852	$ 8,107	$ 11,994	$ 63,269		$ 269,115
10%	17,055	$ 70,907	$ 297,583	$ 36,970	$ 11,994	$ 89,352		$ 506,806

Revenue		
Local & LD Offering	Other (Access, SLC, etc.)*	Total Revenue
$ 40.00	$ 8.00	$ 48.00
$ 60.00	$ 8.00	$ 68.00

Other Expenses		
LD Costs*	Est. SG&A @ 20%	LD Costs + SG&A@20%
$ 5.00	$ 9.60	$ 14.60
$ 5.00	$ 13.60	$ 18.60

CLEC Margin Analysis @ $40 Offering

CLEC Market Penetration	Total Revenue		Total CLEC Facility Expense	LD Costs + SG&A@20%		CLEC EBITDA Total Margin	CLEC EBITDA Margin per Line	CLEC EBITDA Margin %
5%	$ 409,488		$ 269,115	$ 124,553		$ 15,820	$ 1.85	4%
10%	$ 818,640		$ 506,806	$ 249,003		$ 62,831	$ 3.68	8%

CLEC Margin Analysis @ $60 Offering

	Total Revenue		Total CLEC Facility Expense	LD Costs + SG&A@20%		CLEC EBITDA Total Margin	CLEC EBITDA Margin per Line	CLEC EBITDA Margin %
5%	$ 580,108		$ 269,115	$ 158,677		$ 152,316	$ 17.85	26%
10%	$ 1,159,740		$ 506,806	$ 317,223		$ 335,711	$ 19.68	29%